

## Message Text

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ACTION NEA-10

INFO OCT-01 EUR-12 ISO-00 AGRE-00 CEA-01 CIAE-00  
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TO SECSTATE WASHDC 8394  
INFO AMCONSUL ALEXANDRIA  
AMEMBASSY MOSCOW  
AMEMBASSY PRAGUE

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E.O. 11652: N/A  
TAGS: ETRD, EG, UR, EAGR, CZ  
SUBJECT: EGYPTIAN EMBARGO OF COTTON EXPORTS TO USSR AND CZECHO-  
SLOVAKIA

DEPT PASS AGRICULTURE

REF: CAIRO 13525

1. SUMMARY: PRESS CONTINUES DEVOTE ATTENTION TO EMBARGO ON  
COTTON EXPORTS SOVIET UNION AND CZECHOSLOVAKIA. ACCORDING  
NEWS REPORTS, ABOUT HALF OF AGREED QUOTAS HAS ALREADY BEEN  
SHIPPED. EGYPTIANS SEE EMBARGO ON EXPORTS TO SOVIETS AND  
CZECHS AS BENEFICIAL TO EGYPTIAN COTTON MARKETING PROSPECTS,  
NOTING THAT PREVIOUS OFFERS FROM WESTERN CUSTOMERS WERE TURNED  
DOWN BECAUSE OF PROTOCOL REQUIREMENTS FOR USSR AND CZECHOSLO-  
VAKIA. DURING MEETING WITH COTTON COMPANY BOARD CHAIRMEN  
AUGUST 16, MINTRADE TEWFIK SAID EMBARGO RESULTED NOT ONLY  
BECAUSE OF SOVIET ARMS SUPPLY POLICY, BUT ALSO BECAUSE OF SOVIET  
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DELAY IN FULFILLING ITS 1977 EXPORT QUOTA FOR EGYPT. TEWFIK  
EMPHASIZED EGYPT, ON OTHER HAND, HAS LIVED UP TO ITS COMMIT-  
MENTS THUS FAR IN TERMS OF EXPORTS TO USSR. HE ALSO ANNOUNCED  
EMBARGO WOULD BE EXTENDED TO LESS IMPORTANT COTTON YARN AND  
TEXTILES. TIMING OF EMBARGO PRIOR TO 1977 HARVEST/MARKETING  
SEASON GIVES EGYPTIANS MAXIMUM TIME TO SHIFT APPROXIMATELY 30  
PERCENT OF EXPORTS PROGRAMMED TO USSR/CZECHOSLOVAKIA TO OTHER

MARKETS. END SUMMARY.

2. PRESS CONTINUES HEAVY COVERAGE AUGUST 16 AND 17 OF PRESIDENT SADAT'S DECISION TO HALT COTTON SHIPMENTS TO USSR AND CZECHOSLOVAKIA. ACCORDING TO PRESS REPORTS AUGUST 17, QUOTA FOR COTTON EXPORTS TO USSR FOR 1977 SET AT 30,000 TONS (VALUE OF WHICH QUOTED AS 68 MILLION POUNDS STERLING). TOTAL 1976 EXPORTS REPORTEDLY WERE 50,000 TONS (SEE SEPTTEL). THIS REPRESENTS ABOUT 35 PERCENT OF TOTAL EGYPTIAN EXPORTS TO USSR. ACCORDING TO MINTRADE SOURCE, THUS FAR 14,600 TONS OF RAW COTTON HAVE BEEN SHIPPED TO USSR THIS YEAR, FOR VALUE OF 31.6 M POUNDS STERLING.

3. CONCERNING CZECHOSLOVAKIA, MINTRADE REPORTED THAT EXPORT QUOTA WITH CZECHOSLOVAKIA INDEED FINALIZED (CONTRARY TO INFORMATION FROM CZECH EMBASSY). EXPORT OF RAW COTTON WAS SET AT 18,000 TONS, WORTH APPROXIMATELY \$55 MILLION. ACCORDING PRESS, APPROXIMATELY 60 PERCENT OF THIS AMOUNT HAS ALREADY BEEN EXPORTED, AT VALUE OF \$30 MILLION.

4. DEPT. WILL NOTE THAT PRICES OF COTTON SOLD TO USSR AND CZECHOSLOVAKIA, BASED ON EGYPTIAN STATISTICS, VARY CONSIDERABLY (I.E., HIGHER) FROM WORLD MARKET PRICES, ESPECIALLY IN CASE OF SOVIET UNION. EGYPTIANS HAVE GENERALLY MAINTAINED THAT THEY GET HIGHER PRICE FROM SOVIET UNION THAN THEY DO ON THE WORLD MARKET.

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5. AUGUST 16 PRESS DESCRIBES PRESIDENT'S MOVE AS ONE WHICH WILL STIMULATE EXPORTS OF EGYPTIAN COTTON TO HARD CURRENCY MARKETS. THERE APPEAR TO HAVE BEEN MORE OFFERS FOR RAW COTTON FROM THESE MARKETS THAN SUPPLIES AVAILABLE DUE TO FACT THAT QUOTA FOR SOVIET UNION HAD TO BE FILLED. OFFERS TO PURCHASE RAW COTTON (PREVIOUSLY MADE) FROM SWITZERLAND, WEST GERMANY, JAPAN AND "OTHER WESTERN EUROPEAN COUNTRIES" REPORTEDLY ARE NOW BEING RESTUDIED IN LIGHT OF EXCESS SUPPLY CREATED BY EMBARGO ON SHIPMENTS TO CZECHOSLOVAKIA AND SOVIET UNION. PRESS EMPHASIZES, HOWEVER, THAT EGYPTIAN COTTON WILL CONTINUE TO BE SHIPPED TO THOSE EASTERN EUROPEAN COUNTRIES WHICH HAVE HARD CURRENCY AGREEMENTS WITH EGYPT. REPORTS ALSO STATE THAT CHINA HAS ASKED FOR INCREASE IN EGYPTIAN COTTON EXPORTS, CURRENTLY RUNNING ABOUT 300,000 METRIC KANTARS PER YEAR. PRESS GENERALLY SEES SHIFT OF EXPORTS AWAY FROM SOVIET UNION TO HARD CURRENCY MARKETS AS HELPFUL DEVELOPMENT IN EGYPTIAN BALANCE OF PAYMENTS PICTURE, ASSUMING, OF COURSE, THAT ADDITIONAL MARKETS CAN BE FOUND.

6. AUGUST 17 CAIRO PRESS REPORTS MEETING HELD PREVIOUS DAY BETWEEN MINTRADE AND SUPPLY ZAKARIA TEWFIK AND BOARD CHAIRMEN OF EGYPTIAN COTTON COMPANIES. ACCORDING TEWFIK SOVIET UNION IS

DELINQUENT IN FULFILLMENT ITS 1977 TRADE COMMITMENTS TO EGYPT. TEWFIC THUS MADE EXPLICIT ADDITIONAL LINK BETWEEN EMBARGO AND NON-FULFILLMENT OF 1977 TRADE PROTOCOL. PRESIDENT SADAT PREVIOUSLY ONLY MENTIONED ARMS EMBARGO AS REASON FOR COTTON EMBARGO. SOVIET UNION, ACCORDING FIGURES GIVEN BY TEWFIQ, HAS SHIPPED ONLY ABOUT 25 PERCENT OF AGREED-UPON EXPORTS FOR 1977 DURING PAST SEVEN MONTHS. HE ACCUSED SOVIET UNION OF DELIBERATELY DELAYING DELIVERY OF NEEDED GOODS. PRESS GIVES FOLLOWING AS EXAMPLES OF SOVIET SHORTFALL IN FULFILLMENT 1977 TRADE COMMITMENTS. (A) TOOLS, MACHINERY AND SPARE PARTS -- OF 38 MILLION POUNDS STERLING IN VALUE AGREED, ONLY 18 MILLION POUNDS STERLING WORTH HAS ARRIVED; (B) COKING COAL -- OF 600,000 TONS AGREED, 300,000 TONS ARRIVED; (C) PETROLEUM PRODUCTS -- OF 240,000 TONS AGREED, 100,000 TONS ARRIVED; (D) FROZEN FISH -- OF 35,000 TONS LIMITED OFFICIAL USE

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AGREED, 15,000 TONS ARRIVED; (E) LUMBER -- OF 400,000 METERS AGREED, ONLY 100,000 METERS ARRIVED; (F) PAPER -- OF 30,000 TONS AGREED, 12,000 TONS ARRIVED. TEWFIQ EMPHASIZED THAT EGYPT HAD FULFILLED ALL OF ITS OBLIGATIONS (PROPORTIONATELY) UNDER 1977 TRADE PROTOCOL DURING PAST SEVEN MONTHS. TOTAL VALUE OF EGYPTIAN EXPORTS TO USSR DURING THIS PERIOD SET BY TEWFIK AT 64 MILLION POUNDS STERLING, INCLUDING COTTON EXPORTS AND OTHER GOODS.

7. TEWFIK ALSO ANNOUNCED THAT THE EMBARGO ON SHIPMENTS T USSR AND CZECHOSLAVAKIA WOULD BE EXTENDED TO INCLUDE COTTON YARN AND PERHAPS COTTON TEXTILES. THESE REPRESENT, HOWEVER, MUCH SMALLER CATEGORY OF EXPORTS; MAJOR ACTION IS INTERDICTION OF RAW COTTON EXPORTS.

8. COMMENT: PRESIDENT SADAT'S DECISION, COMING AS IT DOES IN ADVANCE OF BEGINNING 1977 COTTON HARVEST AND COTTON MARKETING SEASON, GIVES MAXIMUM OPPORTUNITY FOR EGYPTIANS TO SEEK NEW MARKETS IF EMBARGO ON SHIPMENT TO SOVIET UNION AND CZECHOSLOVAKIA IS MAINTAINED. MOST OBSERVERS VIEW IT AS UNLIKELY THAT SOVIETS WILL RESPOND TO INTENT OF "COTTON PRESSURE", MEANING THAT EGYPTIAN MARKETERS MAY HAVE THEIR WORK CUT OUT FOR THEM IN TERMS OF FINDING MARKETS FOR APPROXIMATELY 30 PERCENT OF EXPORTS RESULTING FROM 1977 HARVESTS. IT MAY BE NOTED THAT SOVIET UNION HAS PROVIDED REMARKABLY ELASTIC IN PAST FEW YEARS IN ITS ABILITY TO ABSORB EGYPTIAN RAW COTTON. BASED ON PREVIOUS EXPERIENCE, WE WOULD EXPECT THAT EGYPTIANS IN EXTREMIS COULD EVENTUALLY UNLOAD WHATEVER COTTON THEY CANNOT SELL ON WORLD MARKET ON SOVIETS, WHETHER THIS YEAR OR NEXT, AFTER IMBROGLIO HAS DIED DOWN.

9. ADDRESSEES SHOULD SEE SEPTTEL REGARDING CLARIFICATION IN MINTRADE STATISTICS FOR RAW COTTON EXPORTS TO USSR.

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## Message Attributes

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